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Recent Trends in Canadian Automotive Industries

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.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0[s]	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
[p]	preliminary
[r]	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
[E]	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

Recent Trends in Canadian Automotive Industries

by André Bernard[1]

This *Economic Insights* article reports on economic conditions in Canadian automotive industries, focusing on trends during the 2008-2009 recession and the recent recovery. For the purpose of this study, automotive industries refer to motor vehicle manufacturing, motor vehicle parts manufacturing and motor vehicle body and trailer manufacturing industries.

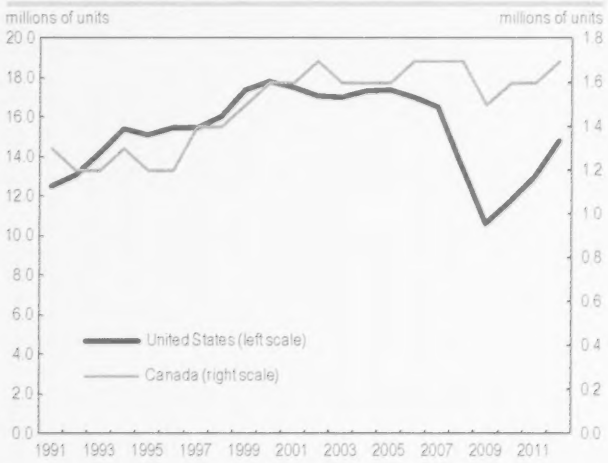
Automotive production is a major component of Canada's manufacturing sector, accounting for large shares of cross-border trade, manufacturing sales and manufacturing gross domestic product. Like manufacturing as a whole, production in Canada's automotive sector fell sharply during the last recession, but has rebounded in the post-recession period, as consumer demand for new motor vehicle has increased since 2009 both in Canada and the United States (Chart 1).[2] This article looks at a broad set of indicators on Canada's automotive industries. Trends in manufacturing sales, industrial product prices, jobs, earnings, labour productivity, investment, imports and exports are discussed.[3]

2012 sales by automotive manufacturers up a third consecutive year

In 2012, manufacturing sales (in current dollars) in automotive industries increased 19.1% to reach $82.6 billion (Chart 2). This was the third consecutive annual sales increase for the sector. Cumulatively, from 2009 to 2012, sales were up 54.4%. Motor vehicle manufacturing, motor vehicle parts manufacturing, and motor vehicle body and trailers manufacturing all experienced significant sales growth since 2009.[4] In the first quarter of 2013, declining sales in January were partially offset by gains in February and in March.

Overall, the sector reached a peak of $111.6 billion in sales (in current dollars) in 1999 before trending downward from 2000 to 2007. This downward trend culminated with record annual declines of 23.6% and 25.7% in 2008 and 2009, respectively, amid much weaker consumer demand for new motor vehicles in both Canada and the United States during the recession. In 2009, manufacturing sales were at their lowest level since 1992, at $53.5 billion. Despite the recent recovery, sales remain below pre-recession levels and well below their 1999 peak.

Chart 1
New motor vehicle retail sales, Canada and the United States, 1991 to 2012



Source: Wards Auto Group and Statistics Canada, CANSIM table 079-0003

From 2009 to 2012, the volume of sales in automotive industries, expressed in 2002 constant dollars, increased 67.3%, outpacing the 54.4% rise in current dollars over the same period. This difference can be attributed to declining industrial prices in

1. The author would like to thank Russell Kowaluk from Manufacturing and Energy Division at Statistics Canada for his helpful assistance.
2. From 2009 to 2011, the number of new motor vehicles sold increased by 9.4% in Canada, by 23.1% in the United States and by 20.0% in Mexico (Desrosiers Automotive Consultants Inc. 2012).
3. The times series presented in this article are based on historical data availability.
4. From 2009 to 2012, manufacturing sales grew 59.7% in motor vehicle manufacturing, 45.9% in motor vehicle parts manufacturing and 42.3% in motor vehicle body and trailer manufacturing.

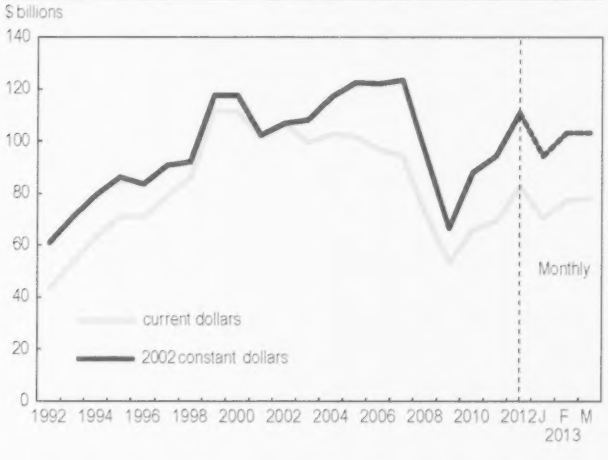
motor vehicle manufacturing. From 2009 to 2011, the Industrial Product Price Index (IPPI), which measures prices paid at the factory gate to producers, declined 11.1% in motor vehicle manufacturing, before posting a modest 1.0% increase in 2012 (Chart 3). In contrast, the IPPI for the manufacturing sector as a whole increased 6.4% from 2009 to 2012, and changed little in motor vehicle parts and motor vehicle body and trailer manufacturing.

Industrial prices in motor vehicle manufacturing trended downward since 2002. This trend took place in the context of the appreciation of the Canadian dollar since 2002, which contributed to decreasing the cost of imported inputs. As well, competition increased between brands, with manufacturers other than the traditional North American automakers increasing their share of both vehicles produced and their share of vehicles sold in Canada (Roy and Kimanyi 2007, Dunlavy 2008 and Desrosiers Automotive Consultants Inc. 2012).

Automotive industries account for an increasing share of total manufacturing sales in the post recession period

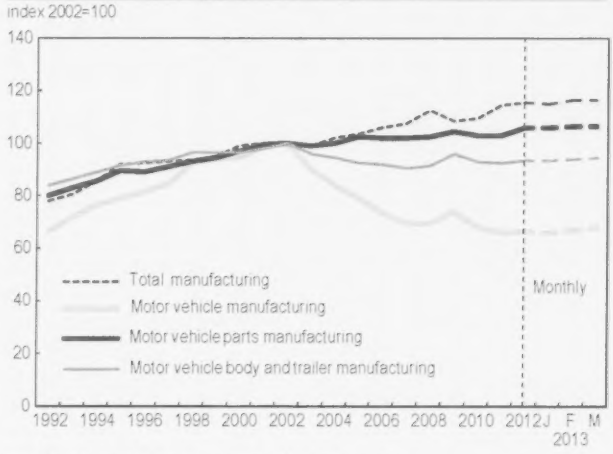
From 2009 to 2012, growth in both the volume and value of sales in automotive industries outpaced that of total manufacturing. As a result, the volume of total manufacturing sales accounted for by automotive industries rose from 14.7% in 2009 to 21.6% in 2012, broadly in line with the historical average since 1992 (Chart 4). When expressed in current dollars, the share of total manufacturing accounted for by automotive industries increased from 10.9% in 2009 to 13.9% in 2012, well below the peak of 21.9% recorded in 1999. The smaller increase in terms of value of sales reflects diverging IPPI trends for the automotive industries and total manufacturing since 2002.

Chart 2
Manufacturing sales, automotive industries, 1992 to 2013



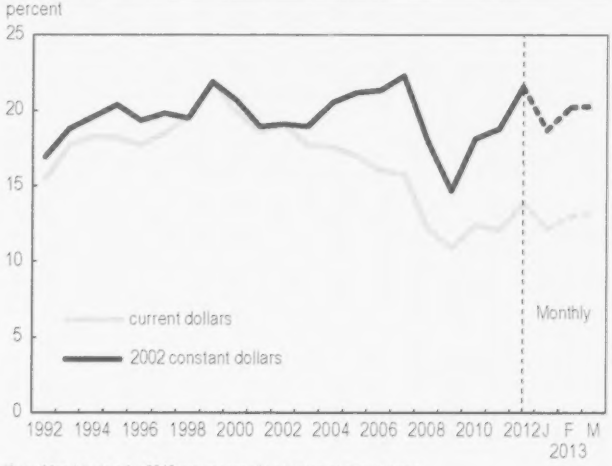
Note: Monthly data for 2013 are seasonally adjusted at annual rates.
Source: Statistics Canada, Monthly Survey of Manufacturing.

Chart 3
Industrial product price index, automotive industries and total manufacturing, 1992 to 2013



Note: Monthly data for 2013 are seasonally adjusted at annual rates.
Source: Statistics Canada, CANSIM table 329-0057.

Chart 4
Share in total manufacturing sales of automotive industries, 1992 to 2013



Note: Monthly data for 2013 are seasonally adjusted at annual rates.
Source: Statistics Canada, Monthly Survey of Manufacturing.

Automotive industries have not fully recovered jobs lost from 2007 to 2009

In 2012, the automotive sector employed 115,000 persons in Canada, which represented 7.7% of all manufacturing jobs in the country. Of this total, 64,300 employees were in parts manufacturing, 37,200 were in motor vehicle manufacturing and the remaining 13,600 were in motor vehicle body and trailer manufacturing. The majority of the sector's jobs were located in Ontario. In 2012, the province accounted for 81.9% of jobs in the automotive sector, while the second largest employer, Quebec, was home to another 6.5% of jobs.

Automotive industries experienced significant job losses during the last recession. From 2007 to 2009, a total of 43,500 jobs were lost, reducing the size of the workforce from 152,600 in 2007 to 109,100 in 2009 (Chart 5). These losses amounted to a 28.5% decline in employment, which was nearly double the decline that was observed in total manufacturing employment over the same period (15.5%) (Chart 6). Job losses were widespread, as all three automotive industries experienced proportionally similar declines between 2007 and 2009. Employment in automotive industries had already been on a moderate downward trend since 2000.

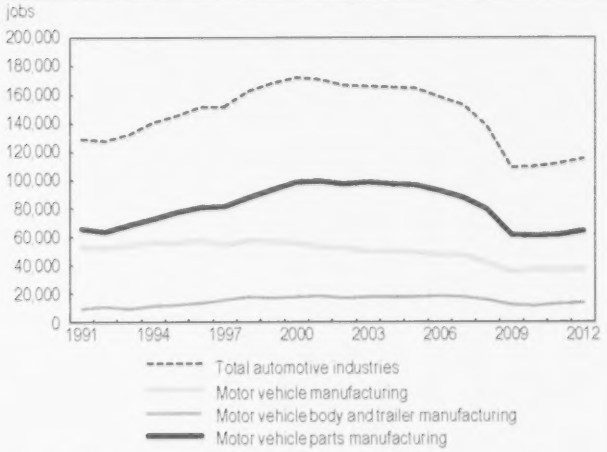
In recent years, employment levels in the sector have stabilized. Automotive industries have posted small employment gains in 2010, 2011 and 2012, amounting to 5,900 new jobs. Even so, the number of jobs in 2012 was still 24.6% lower than its pre-recession level of 2007 and 33.1% lower than in 2000. Of the three industries that comprise the auto sector, only motor vehicle body and trailer manufacturing employed more people in 2012 than it did in 1991.

Earnings advance in 2012, but are still below pre-recession levels

Average weekly earnings in the automotive industries were $948 in 2012 (expressed in 2002 constant dollars), up 8.6% from the previous year (Chart 7). This was the largest annual earnings increase the sector has recorded since 1992, and was largely driven by gains in motor vehicle manufacturing (Chart 8). Despite this increase, earnings in 2012 in the auto sector were still 8.6% lower than the pre-recession peak of $1,037, recorded in 2007.

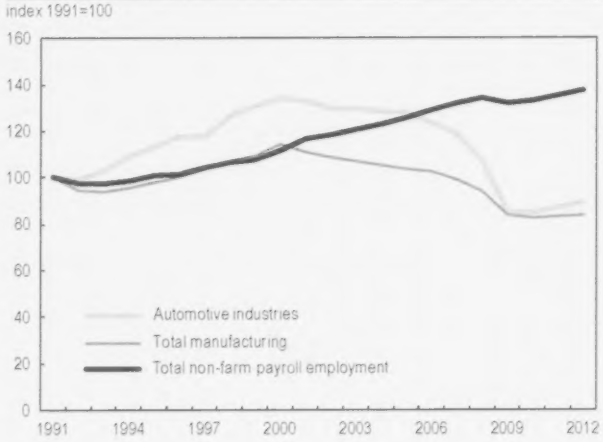
Although jobs in the auto sector still pay more relative to the average wage in the manufacturing sector and in the rest of the economy, the gap has narrowed in recent years. In 2007, average weekly earnings in the automobile sector were 23% higher than the manufacturing average. By 2011, that gap had narrowed to less than 7%, before increasing to 15% in 2012.

Chart 5
Payroll employment, automotive industries, 1991 to 2012



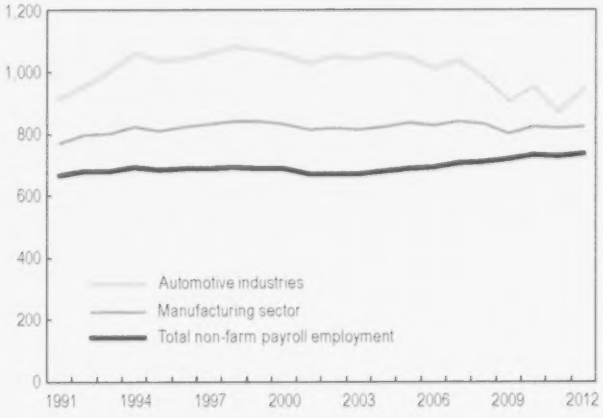
Source: Statistics Canada, CANSIM table 281-0024

Chart 6
Payroll employment index, automotive industries and total manufacturing, 1991 to 2012



Source: Statistics Canada, Survey of Employment, Payrolls and Hours

Chart 7
Average weekly earnings, automotive industries and total manufacturing, 1991 to 2012



Note: Due to a change in methodology in 2009, the earnings estimate for 2009 for motor vehicle manufacturing needs to be interpreted with caution.
Source: Statistics Canada, Survey of Employment, Payrolls and Hours

Labour productivity advances

Labour productivity in the automotive sector, as measured by real output per hour worked, advanced markedly in two of the last three years, including a 17.0% increase in 2012 (Chart 9). Cumulative productivity gains from 2009 to 2012 in automotive industries amounted to 22.5%, reflecting increases of 45.5% in output and 18.8% in hours worked. These productivity gains offset falling productivity through the recession. In 2012, labour productivity in the automotive industries was 11.2% higher than it was in 2007.

In recent years, labour productivity gains in the auto sector outpaced that in manufacturing as a whole and in all industries. Manufacturing posted a cumulative increase of 5.8% from 2009 to 2012, while in all industries, labour productivity gains amounted to 2.7%.

Investment levels well below the pre-recession peak

Businesses in automotive industries invested $1.6 billion in structures and machinery and equipment in 2012, a 7.1% increase over 2011 (Chart 10). This was the first annual increase in capital spending since 2007. Investment intentions for 2013 point to a 1.2% reduction in capital spending.

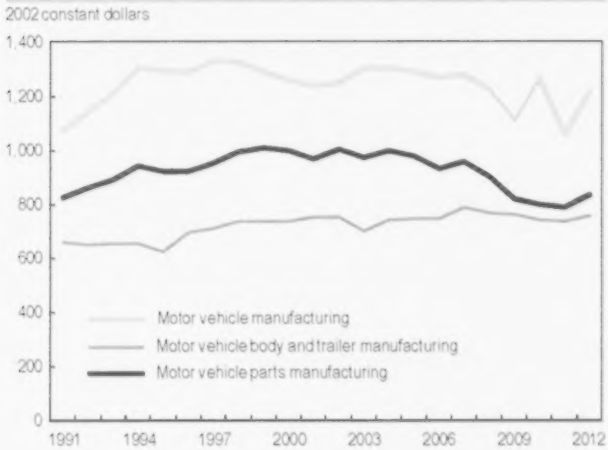
Investment spending in automotive industries has fallen off significantly from pre-recession levels, from a peak of $4.2 billion in 2007 to a low of $1.5 billion in 2011. In 2012, spending was still 62% below its pre-recession peak recorded in 2007.

Although all three automotive industries had declines in capital spending during the recession, the largest was in motor vehicle manufacturing. Capital investment fell 73.8% in motor vehicle manufacturing from 2007 to 2011, while it contracted by 23.1% in motor vehicle parts manufacturing.

In comparison, capital spending in manufacturing as a whole has been trending upward since 2009, increasing 15.4% in 2012, and are expected to rise again in 2013, according to intentions (Chart 11). As a result, investment levels in manufacturing were higher in 2012 than at any time since 2000.

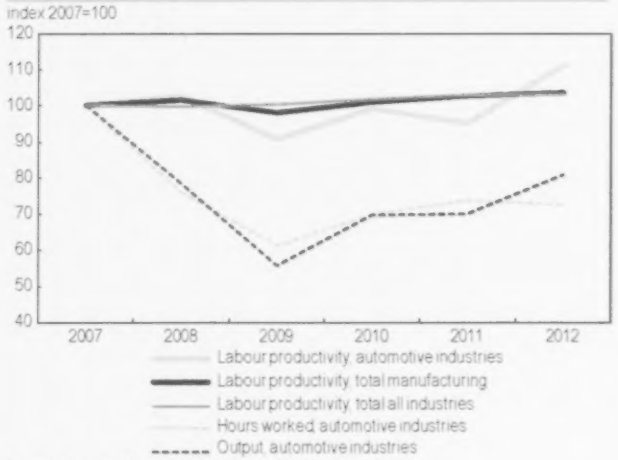
Because of these diverging trends, the share of manufacturing investments coming from automotive industries has declined markedly. In 2007, the auto sector accounted for 20.2% of all capital spending on structures and machinery and equipment in the manufacturing sector. By 2012, that share had fallen to 7.8%. This downward trend in investments in the auto sector occurred in the context of Canada's declining share of North American investments by the major auto makers (TD Economics 2013).

Chart 8
Average weekly earnings, automotive industries, 1991 to 2012



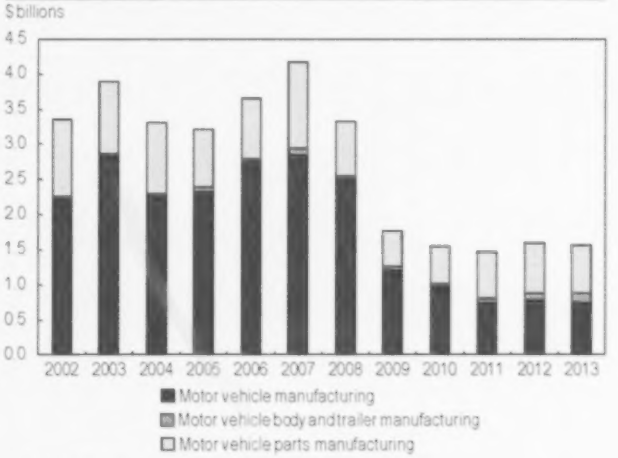
Note: Due to a change in methodology in 2009, the earnings estimate for 2009 for motor vehicle manufacturing needs to be interpreted with caution.
Source: Statistics Canada, Survey of Employment, Payrolls and Hours.

Chart 9
Labour productivity index and related variable, automotive industries, 2007 to 2012



Source: Statistics Canada, CANSIM tables 383-0031 and 379-0031.

Chart 10
Capital spending, construction and machinery and equipment, 2002 to 2013



Note: Actual from 1998 to 2011, 2012 preliminary actual and 2013 intentions.
Source: Statistics Canada, Private and public investments in Canada.

Exports and imports in the auto sector advance for the third consecutive year

International trade plays a prominent role in automotive industries because of the integrated structure of Canadian and American production. Most Canadian production is exported,

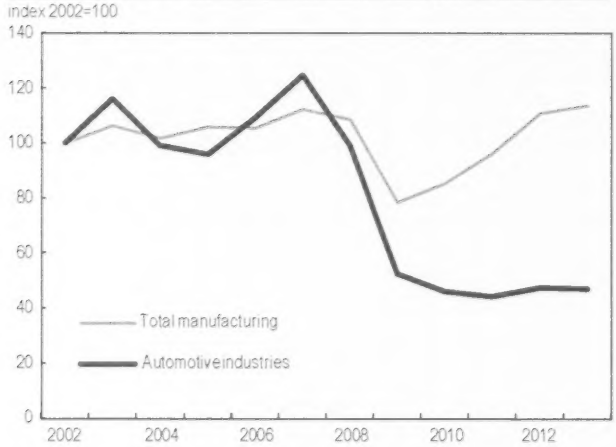
almost exclusively to the United States. In 2012, for example, the United States accounted for 97.2% of all Canadian automotive exports.[5] In turn, automotive imports from the U.S. are a key input into Canadian automotive production and exports, a characteristic that distinguishes automotive industries from other manufacturing industries (Cross and Ghanem 2008).

Exports and imports of motor vehicle and parts are also a major component of Canada's total international merchandise trade. In 2012, exports of motor vehicle and parts represented 14.8% of all Canadian exports while imports of motor vehicle and parts represented 17.5% of all imports.

After posting five consecutive annual declines from 2004 to 2009, the value of exports of motor vehicles and parts started to trend upward again. Exports increased 14.9% in 2012 to $68.5 billion, bringing cumulative exports growth from 2009 to 2012 to 54.9% (Chart 12). Despite these recent gains, exports are below their 2004 high of $91.5 billion and their pre-recession level of $77.6 billion recorded in 2007.

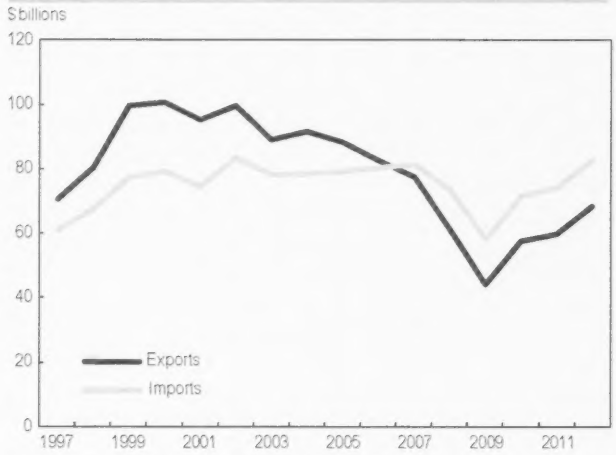
Imports of motor vehicle and parts have also followed an upward trend in the post-recession period. Imports increased 11.7% to $82.8 billion in 2012 and from 2009 to 2012, imports have posted a cumulative increase of 42.4%. Despite growth in exports outpacing growth in imports for the last three years, Canada's automotive sector recorded a trade deficit for the sixth consecutive year in 2012, at $14.3 billion.

Chart 11
Capital spending index, construction and machinery and equipment, 2002 to 2013



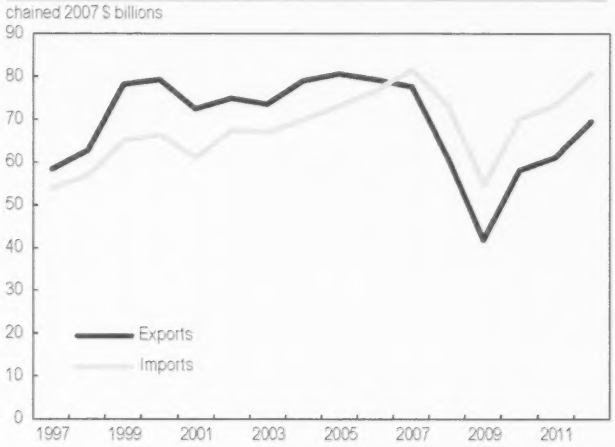
Note: Actual from 1998 to 2011, 2012 preliminary actual and 2013 intentions.
Source: Statistics Canada, Private and public investments in Canada.

Chart 12
Value of exports and imports, automotive industries, 1997 to 2012



Source: Statistics Canada, CANSIM Table 228-0059.

Chart 13
Volume of exports and imports, automotive industries, 1997 to 2012



Source: Statistics Canada, CANSIM Table 228-0061.

Recent growth in exports and imports of motor vehicles and parts was volume-driven. When expressed in constant dollars, cumulative exports gains from 2009 to 2012 was 66.2%, while cumulative imports gains for the same period was 48.1% (Chart 13).

5. Source: Industry Canada, Trade Data Online (http://www.ic.gc.ca/eic/site/tdo-dod.nsf/eng/Home).

Summary

Manufacturing sales in the automotive industries have partially recovered from large declines during the 2008-2009 recession. Automotive producers have posted three consecutive years of annual sales growth, with current dollar sales advancing 55% from 2009 to 2012. However, industry sales in 2012 remained below the pre-recession peak. Increases in sales were volume driven, as industrial product prices for motor vehicle manufacturers have trended downward, continuing a trend that began in 2002. Exports and imports have also advanced in recent years with 2012 marking the third consecutive year of positive growth.

Recent sales and exports growth have not been accompanied by substantial job growth or capital spending growth. Automotive industries employed, in 2012, 25% less people than in 2007, and 33% less people than in 2000. Growth in real output from 2009 to 2012 outpaced growth in hours worked, as labour productivity increased 23%. Capital spending by automotive industries has not advanced from declines during the recession, and in 2012 remained about 62% below 2007 levels.

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